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Money and prices

[United States]

[1897?]

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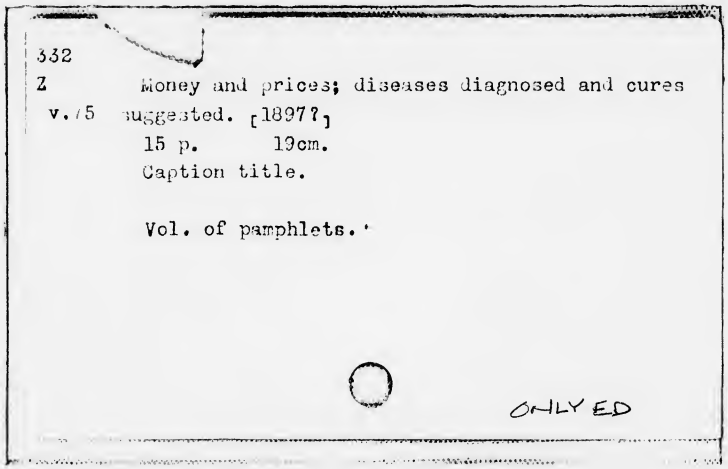

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MONEY AND PRICES.

DISEASES DIAGNOSED AND CURES SUGGESTED.

Money, in a broad sense, is an order issued in all civilized society, to be used as a standard in measuring the quantities of any commodity, to be freely exchanged for commodities owned by others.

Ideally considered, money should not change, and ideally a "dollar" never does. In this particular the dollar is certainly a single standard.

It is the quantity of commodities, compared with the dollar, that changes, and more or less given, in accordance with the causes which induce owners to want these society drafts, more or less, than current fixed quantities of commodities.

THE PART PLAYED BY THE IDEAL.

Already we have in this paper (upon what appears to be a very matter of fact subject) three abstract ideas, designated by the words society, commodities and dollars.

Let us look a little at these ideas.

For our purpose the *ideal* in *society* is the mutual understanding that *something* will represent commodities and be equal to and exchange any quantities into which they may be freely divided. There is also a more modern understanding that this something will not only exchange, but also cancel obligations incurred when the exchange is made for dollars to be delivered in the future, *e. g.*, legally pay debts.

This *ideal* feature of *society* is now almost world-wide, but national laws make its practical application a matter of local interest.

The *ideal* in *money* is that it is *something* to compare commodities with or by, and that its "dollar" unit is not divisible like commodities, of which more or less quantities may be given for a currency dollar.

It is always a dollar of one hundred cents, just as a yard-stick is a measure of thirty-six inches.

Dollars may change in number, material, convertibility at par, and yet (paradox though it seems) be unchangeable from our ideal standpoint.

This ideal view is one that *contemplates* a *varying number* of dollars, the *volume* of which should always preserve a strict neutrality between exchanges, so that values will never rise or fall because of an increase or decrease in the volume of currency.

Here is the ideal, true or single standard that constitutes the real unchangeableness of money.

1897 ?

When the number of dollars rises or falls beyond *the point* where the true equilibrium is produced, it is evident we have then a varying standard, and one that must often produce injustice, *e. g.*, cause exchanges that could have been made on equal terms at one time to be unequal at another.

The object of this paper is to see how nearly this ideal standard can be attained in the practical exchanging of our modern society.

A few words on the third *abstract* idea with which this paper opened, and then we will go on to practical results.

Commodities, on the ideal side, include everything offered for exchange that can be measured by ideal dollars—so much to the dollar. You can ideally represent the whole world as a commodity, and if valued by dollars, the man that had the only dollar in existence should get the world, if for exchange. But let a second dollar come somehow into being, and have an equal purchasing power, and each will purchase or procure but half a world. To imagine otherwise is to suppose half the currency worthless—or useless.

THE REAL AND TRUE STANDARD OF VALUE.

But we must now consider our subject from a purely practical, national and business standpoint, and it will be profitable to begin with what constitutes the real and true standard of value.

Value, we define to be the relation existing between all exchangeable things.

When two things will exchange equally for each other they may be said to be of same value. When either of them will exchange for a third, then any one will be equal to each—value will be the same.

Now, we perceive, it is such a true and unvarying standard, or measure, of this sameness in value that we want. Something that will indicate variation or sameness.

Equal values, once established, the required thing is to use a measure that will not change that relation.

If all agreed that any one of the three things should be called a dollar and that whoever possessed it had an order good for any of the other things, you can see his order would be considered of same standard value as the things it exchanged for.

The correct idea, therefore, in a standard measure, is that it will record settled value between things to be exchanged.

The measure is supposed to be of same value as all the other things, and *vice versa*.

Such is the single standard to which all values conform, and about which there is so much controversy these times.

There is a popular notion that this single standard is the only one that can maintain equitable values. It is supposed using two or more commodities as a double standard is the cause of varying values, as it is thought no government can control what the public shall part with any commodity for, and so cannot adopt two that will have one uniform commercial value.

While all this is true, the advocates of a single metal standard are certainly mistaken in their idea that either one or two metals has directly to do with keeping values from changing, *i. e.*, prices going up or down, and yet this we consider to be the only important consideration in the whole question. This we must consider carefully, as it is the foundation thought of our paper. If the standard measure, being made of only one commodity, will prevent a general advance or decline in prices, it is certainly what the writer wants and is willing to advocate.

By this advance, or decline, it must be understood we do not refer to a production of more or less than normal needs of particular things, which causes more or less of their quantities to be temporarily given for a dollar. Such changes are governed by local supply and demand of and for commodities, but we contend that a general advance, or decline, must be the result of the supply of dollars, and that general values change according to volume or number of same.

Values once established (we care not that the standard or measure is, one or more commodities) we rest our case upon the assertion that if the dollars into which this currency is divided increase in number, say 5 per cent, and the commodities increase 25 per cent, the quantities in each dollar exchange must increase 20 per cent. In other words, the value to be given for each currency dollar will depend upon the number there are of them, and not upon whether they are gold, silver, paper or credit dollars.

MONEY VOLUME MUST BE CONSIDERED.

How many readers have really considered this, and that the important thing is to find out how and why the dollars increase and decrease in number and thereby cause variations in values? Note the illustration already given of the world being divided and subdivided, as dollars increased in number.

It must be plain that one, or two dollars, used just as often as you can imagine them used, could not do the business of this country, and therefore the number of dollars may be just as important a matter to consider as what commodity or commodities are used as dollars.

If one or two dollars will not do the business of the country, it is important to find out the number that will and also the consequences of not having that number.

The correct volume of currency dollars is always ideally proportioned to the volume of commodities, so that natural increase of the latter would always be offset by an increase of the former, or the reverse.

Thus, you see it is not a fixed number that is wanting, but a *proportionately increasing* or *decreasing number*, so that both volumes would be moving at same time and in a correct relation to each other. The moment one moved faster than the other, that certain condition that we call the correct or single standard of prices would be broken, and the consequent effort to bring on the necessary adjustment results in commercial stagnation or inflation, *e. g.*, there is a panicky effort to accommodate the volume of commodities to the dollars available for exchanging them, and this is done by putting more or less quantities in what is given for dollars.

It matters not how the dollars come to increase, or decrease, so long as the proper proportion is broken, the effort at adjustment must follow, attended with disorganized business relations.

There are many reasons why the volume of currency may change from its normal or standard volume, but no matter what the causes,

the abnormal change produces a corresponding change in commodity quantities or prices.

Even if there was only gold as currency, the supply being out of proportion to its exchange uses, would make an incorrect standard. Same if gold and silver constituted the whole currency, and supply was more or less than necessary.

Want of faith in ability of government, banks, corporations, or private people, to redeem their promises may change the normal volume, which volume is at any time the number of dollars that make the then existing general values or prices.

If the total volume of commodities exchanged was to increase, 5 per cent per annum, and the volume of dollars was to increase 10 per cent, it is very clear that the standard ratio would be out 5 per cent, and the exchange volume of commodities would adjust themselves by putting less quantities into every dollar, thus equalizing or making the volume of currency once more the proper standard for unchanged values.

Experienced results seem to be the only possible way of arriving at the proper single standard, for although the increase, or decrease, in per centage of currency and population, may be known, the wants of the population are a very hard factor to know; but when there is a general rise in prices it is equal to saying that less quantities of commodities are given for each dollar, or else each particular commodity has a particular reason for rising, and all these particulars are equal to the general rise.

IMPORTANCE OF CREDIT MONEY.

As we have seen, even the undue increase, or decrease, of a currency entirely gold may be out of proper ratio to its use. So it may be with the volume of all dollars, whether legal tender or promissory, for commodity quantities are established on their combined grand volume.

This must be so as long as a credit dollar can be used to settle exchanges.

The undue increase, or decrease, of credit money is, therefore, a more important factor than the changes in the volume of final payment money.

Exchanges are theoretically made by means of a government currency that is irredeemable by the issuer, but in real practice nine-tenths are made by means of promises to pay this final money, and the volume of these promises, therefore, act just as if they were the thing itself. The final dollar, and the promised final dollar, make the grand volume used in exchanging. You can imagine this volume all final dollars, or all promissory dollars, and the result on values will be the same so long as there is no disturbance, *e. g.*, as long as the volume is not unduly expanded or contracted. One can imagine a refining of credit until every dollar of final payment was replaced, until there was not one left outside banks, and yet so long as credit lasted (and the existing standard volume was not changed) values would remain stationary. This, however, is an extreme view and leaves entirely out of our calculation the fact that every bank credit or private promise implies ability to procure final payment dollars when wanted (and this is their great danger) for inability at

once produces a contraction of volume and the effects are soon seen in values, just as they are when the volume is unduly increased by too good credit.

A CHANGING VOLUME MAKES A FIXED STANDARD.

The currency volume can be rightly called a single or unchanging standard as long as it is in correct proportion to the changing or stationary volume of exchanges to be made, *i. e.* when both change in the same ratio.

No change in particular commodities will change the standard relation of volume to volume, and this is so because there are more or less of the particular things given, thus leaving the general volume of commodities same ratio to established volume of currency. No doubt values made for commodities exchanged make prices for all waiting exchange.

But now change the whole volume of currency in relation to the whole volume of commodities, and you will find an advance or decline compelled in the quantities of all commodities.

The changes in particular commodities, and general ratios, may be going on at the same time and may be hard to separate.

They may be even working in reverse directions and thus nullifying each other.

There is a constant pressure on the part of different interests to change the correct standard ratio, or number, and substitute one that will work to advantage of their class. For instance, it may be an open question as to who should get advantage of advances or reductions in values, brought about independently of, or by, undue expansion or contraction of the currency, but there is no question about its being the duty of a governmant to, if possible, keep an even balance so that debtors and creditors will settle with substantially the quantities of commodities at first exchanged.

It matters not whether you consider the currency as stationary, and commodities increasing, or the reverse, or both increasing or decreasing, but out of proportion, it's all the same, for as long as the one standard volume of currency is not maintained we cannot have volume of commodities without more or less put in to make their volume conform to the currency volume.

To reverse this process we would have to be able to change quantities in the currency dollar. If we could take one cent or ten cents out of each, or remake the dollar, putting in one cent or ten cents, we could thus increase or decrease the number, but this any one will admit would be unjust, and if this is admitted how can it be considered just to compel a change in the quantities which the currency dollar represents.

Unless the proper standard number of currency dollars is maintained there must be a change, either in the quantities put in currency or commodity dollars. Which should it be?

Let us take an illustration. Suppose all the kinds of currency in the United States represented by forty thousand dollars, each dollar capable (at the rate now given by experience) of being used ten times per annum without disturbing normal values. Next, suppose all commodities offered in 1893 for exchange were divided into four hundred thousand lots of certain quantities, so that parties holding the forty thousand currency could get forty thousand of them each

time currency was used, it is evident that in ten exchanges all will pass from owners of property to owners of dollars.

This currency may be made up of one thousand gold dollars, two thousand silver dollars, three thousand greenback dollars, four thousand bank note dollars, twenty-five thousand bank deposit dollars and five thousand individual credit dollars—forty thousand dollars in all.

Whoever has these dollars knows that all represent commodities, for they exchanged commodities for them, say in 1893, as there is no honest way of getting a dollar without freely giving something for it that the owner of the dollar is willing to take.

Now, 1894 opens and we will suppose there is but twenty thousand currency to do the exchanging because for some reason (say distrust) the volume has been cut down half.

There is as much of everything to be exchanged as there was in 1893, for natural renewal has done its work, and if they are divided as they were in 1893 (four hundred thousand lots for exchange) but half can be passed from owners to purchasers, and so half the wants of man can only be satisfied.

This would certainly produce an effort to bring that desirable end about, and as the medium of exchange cannot be increased, the next best thing happens and the volume of commodity lots are reduced by giving more with or for a dollar.

Once this process has begun the pressure to get the scarce currency dollars goes on, for they will buy a little more each time used, until finally confidence is restored and begins making new credit dollars, which latter increase the volume of currency until each dollar will buy less and less, and the beam begins to turn and we have the opposite conditions, and for the same reason that before it bought more and more, viz., the currency now increases beyond the single equilibrium standard, thus showing there is a point where the volume will neither put values up or down. Such a volume, we think, may rightfully be designated the single correct standard of values.

INTERNAL CAUSES OF CURRENCY CHANGES.

We had, now, better examine this volume and see if within itself there are not conditions causing it to contract and expand, thus producing corresponding changes in commodity quantities.

If we find this to be the case, it is evident we will find something that should not be, for a measure that would cause more or less to be given at one time than another should certainly need adjustmet.

In this country we have currency, or acting currency, grading in order as follows: $23\frac{2}{10}$ grains gold stamped as a legal tender for \$1, $371\frac{1}{4}$ grains silver stamped legal tender for \$1, paper stamped a legal tender for \$1. Next we have dollar promises in the form of bank notes, bank deposits and individual promises.

An analysis of these various kinds of dollars will show that some of them are to be preferred before others, because of their quality of general use as well as final payment. Gold (as now held) we admit has pre-eminently the first quality, while in common with silver and greenbacks, it has the second.

A $23\frac{2}{10}$ grain gold dollar will buy the greatest quantity in all parts of the world, independent of its quality of final payment in this country.

Next choice would be a silver dollar which has valuable purchasing power as well as debt paying. Then comes greenbacks, which have legal tender power, but without any visible collateral that has value outside the United States.

Next, bank notes and bank promises (deposits) and last individual promises.

GOVERNMENT FINAL PAYMENT MONEY.

Let us first consider the government, or legal tender, part of this great volume, for all bank, corporation, and individual promises depend upon these. Let us look at their uses.

The legal tenders should be sufficient in number to make a 25 per cent or 30 per cent reserve against the deposits of every bank.

They must settle daily all balances through clearing-houses and otherwise.

They must do all the private cash business in the whole United States, if we eliminate bank notes, which are no different from bank deposits.

Considering these legal tenders carefully we find that this great use for them does not make all have same value, and so there is even a choice amongst legal tenders. Society has made them sufficient to settle any dollar obligation already incurred without special contract, but it cannot make people give up any commodity, or part thereof, unless freely agreed to, and so owners of commodities have a choice as to what dollars they take, and they are very sure finally to want the one that will secure most, and in the largest number of places.

At present time there is no doubt $23\frac{2}{10}$ grains of gold will buy more (if tendered on its weight merits) than any other legal tender dollar, and so it has a commercial value superior to the others, and this simply because commercial values are only partly considered in silver or greenback dollars. They will pay, but not buy as well, for the latter quality depends on faith, and outside of the United States all our money passes at its commodity or commercial values.

The government attempts at home to keep all its dollars on a par with the one that will secure most everywhere, by adopting bank methods and keeping a reserve of gold dollars to protect their promissory currency, but unlike banks and individuals they have no assets on hand independent of their reserve.

To claim they can fall back on borrowing or taxing power is equal to saying that the government has undertaken to issue a money that may keep it constantly going in debt, or that the people may be taxed to maintain.

If such an undertaking is not necessary the government has evidently adopted a very expensive and dangerous experiment.

That it is necessary the reader may or may not conclude before he has finished this paper.

At present we are only interested to know that gold is the only dollar in the United States that nobody expects or undertakes to redeem, and so it has at least that one merit over all others.

To call it the single standard of values is a misnomer, because every other kind of dollar has about as much to do with values as it has. It is the dollar that will buy most from a commercial standpoint, but it will not pay a debt any faster or better in the United

States than any other dollar. It is the dollar the government has undertaken to keep it's other dollars on a par with, but any metal kept at commercial par will buy and pay just as well. But no matter whether all dollars are kept on a par with it or not it is plain that all combined control value, which is, strictly speaking, the relation of commodity quantities to currency dollars.

There are several ways of keeping all dollars at par (yes, even so that they will not depend on each other for redemption) while the volume of all makes value.

This will appear still plainer as we leave the government money, which is a currency of final payment for all but themselves. It may be well to add here, before leaving, that the only way it seems possible for its present method of redemption to affect values is by raising a doubt of the government's ability to keep enough of one metal, in which case the metal buying the most everywhere would be withdrawn, and thus the national currency would be contracted and (contrary to general belief of what would then happen) more commodities should be given for a dollar, for there would be fewer dollars to buy with. Everybody should admit that a contracted currency will buy more to the dollar than an expanded one. We saw this effect last year when legal tender currency went to a premium, and, therefore, more commodities could have been bought with a silver certificate or greenback legal tender than with a gold dollar, and for the simple reason that their contraction was more important than that of gold.

If the government had just then suspended gold payment, it is mighty hard to see why gold should have gone to any premium.

If withdrawn, it would only have contracted still more a currency that was evidently so contracted as not to be sufficient for what was required of it, and so the demand would have been still greater. How a currency so in demand could go to any discount needs more explanation than we have yet seen, or how the gold part of the currency, freed from redemption use, and to be devoted to settling balances with people who settle on commercial values, should go to any great premium, it is hard to see.

Even while the government held a large lot for redemption purposes, all foreign balances had to be settled with gold, but change the system and put all at disposal of merchants, and we cannot imagine an extra supply of gold putting gold at a premium—scarcity is supposed to produce that result.

It may be impossible to forecast what would happen if the government was unable to maintain its various currencies at par with the one most used everywhere, but it is certain that whatever is used for money should be kept in purchasing power, as near universa commercial value as possible, so there would be no tendency to expand or contract the volume owing to one part being considered better or worse than the other.

BANK AND PRIVATE PROMISSORY MONEY.

Leaving the government final payment currency we now go on to examine that great volume of dollars known as credit money.

It is first to be noted that these are promises to pay final currency which should have passed when the exchange for commodities was first made.

Such drafts are not, therefore, an order for commodities, but for final dollars, and if you have such credit money you can demand final currency for it and with that buy or pay, and it is thus promissory money does indirectly or practically all the other can do.

If the number of final purchasing dollars in the country affects values or prices these credit dollars must also be taken into account, and their volume used as currency be added to the volume of final payment dollars, for they do same work.

Note that credit dollars are like government money (and unlike the commodity dollars they exchange for) in the fact that the quantities in each dollar cannot change as long as used for money.

In exchanging they will, therefore, act in same way as government money, compelling the volume of commodities to conform to the number in use by putting less or more quantities in every dollar exchange.

Exchanges being already made, these promissory money dollars will never change. They are as unyielding as the gold dollar, which is supposed never to alter and so when a division of commodities has to be made by dollars, their quantities have to conform to number used.

Suppose, for a moment, it was the other way.

Imagine commodity dollar quantities of all things fixed, and that they must remain unalterable, but that the currency dollar can be modified as to its component parts.

Then begin exchanging the unalterable commodity quantities for currency dollars that can have say more or less cents in them, and while there is a certain proportionate number of each, and a certain number of exchanges, business will go on and at the end of any given time all will have passed back and forth without change of numbers or quantities. But let the currency increase. Say 10 per cent more dollars of 100 cents each are somehow added and how then is exchanging to be done? Remember, commodity quantities to the dollar are unalterable and currency will not lie idle.

If all must be exchanged, there seems nothing for it but to put 110 cents in a dollar and thus exhaust the excess of currency, and the number will again conform to the commodity divisions, and business go on once more.

Thus we arrive at the fact that credit dollars, as well as final dollars (both being unchangeable in themselves), compel conformity on commodity side, for we know that of these last more or less can be given. It may be asked where is the compulsion, for if commodities increase, or the reverse, will not their representative money also change? The answer is, not necessarily, and certainly not automatically. Last year we had great harvests and contracted currency and consequent giving extra quantities for both reasons.

A contraction of commodity quantities may be accompanied by an extension of currency only in case former falls a larger per cent than latter rises.

But, on the other hand, if the volume of currency increases, or the reverse, it will work automatically on all things to be exchanged and must invariably produce corresponding changes. You cannot imagine an increase of currency that will not compel a general increase of commodity divisions or dollars, and if there is no natural increase of commodities so as to make more dollars of same quan-

tity, there will be the needed increase by dividing quantities in existence into the required number, so that every one using a currency dollar will get less for it.

This we may surely put down as a law of money.

If the volume of credit money was always stationary it would be a factor easy to deal with, for then we could assume that if its volume was, say ten times that of final currency it would raise prices or values in proportion, and the effect stop there. All fluctuations would then be looked for as resulting from government currency, but this we have good reason to know is not the case.

As the volume of credit dollars depends entirely on faith, one can see how frail a foundation the larger part of our standard of values rests on, and how necessary it is that every one (who has anything to exchange for dollars) should understand the measure he uses.

Can faith (the creator of credit dollars) be controlled or can we get any guarantee that the increase or decrease of that credit which makes values can be known?

To give an intelligent answer it will be necessary to look a little closer at the foundation upon which all financial credit stands.

Every promissory dollar in the United States supposes the issuer received one dollar's worth of something, and that therefore every credit dollar has commodities somewhere that it represents, and that would procure a final payment dollar if any one demanded a settlement of the promise.

It matters not how many hands this promise goes through from the time it was first issued for a railroad tie, a day's work, a pile of stone, etc., it always represents these assets, and if we have faith that they are worth the dollar promised for them, the promise can, presumptively, be used to procure other commodities. The foundation, therefore, for every credit dollar is an existing commodity, supposed to be full value for same.

If you doubted that the party from whom you received such a promissory dollar had not the wherewithal to procure a currency dollar you would not certainly receive it, nor would any one else.

CREDIT PROMISES AND CREDIT MONEY.

All credit dollars are not used as currency as they are made payable with interest. Such are bonds and mortgage notes, and commercial paper, etc. Upon such, however, is founded the vast modern system of bank money. Our banks take this time paper and put it to deposit of customers on demand, thus making currency and increasing money to a volume certainly many times larger, for all the banks (on an average) have not more than one-fourth of their demand deposits on hand in legal money, the other three-fourths being discounted time promises. Thus, the bank promise, no matter whether in the shape of bank notes or deposits, is money, but still credit promissory money.

A sharp distinction should be drawn between credit dollars used as money and those not so used. The latter are really only commodities that, as it were, have taken a fixed form.

This form, however, is fixed only so long as we believe legal tender currency, or commodities at current value, can be procured by their use.

Let doubt come, and every credit dollar finds it's value, for when it is then exchanged in liquidation each dollar will be found to have shrunk and the whole will be divided into less dollars, but at the then prevailing values.

This makes no change in general values, for this liquidation is but the absorbing of an over-supply of credit representative dollars, just as if there was a supply of wheat beyond demand, when, as we all know, more is given for a dollar, or like an under supply of corn (which may take place while wheat supply is beyond demand) when less is given than before for, perhaps, the same dollar that bought the wheat or redeemed the credit dollar.

Banks were established to keep in safety the reserve money it was found necessary to hold, under our modern system, so as to have convenient drafts good for such commodities as might, from time to time, be needed.

Experience settled that on an average not over 25 per cent of money deposited was ever called for at any one time, and so it became customary to discount individual time promises to the extent of say 75 per cent of currency deposited by the public, thus making the bank promise to pay on demand take the place of borrower's time promises.

We can imagine banks discounting an expanding volume of credit time dollars, and placing proceeds to order of their customers as a demand deposit, until such expansion absorbs every final dollar in the country to make a necessary 25 per cent. reserve. If such a point could be reached there would at present be a volume of six thousand million deposits capable of making exchanges, for there are about fifteen hundred million final legal tender dollars, now in the United States.

CREDIT MONEY AFFECTS VALUES.

It is thus that credit money is formed, and we shall now examine how it expands or contracts, thereby affecting values.

It is first to be remarked that this volume does not increase or decrease, like the society dollars contemplated in this paper, which are limited by possible natural production and natural waste.

Our credit money is entirely the creature of faith.

The bankers will take it as long as they can get promises that they believe the maker has commodities, at current value, to redeem with, and as long as say 25 per cent of the currency they pay for promises is left with them on deposit. This we may consider the normal condition. An abnormal would be when an undue increase of discounting went on until the banks reserve of final currency was reduced below the per cent recognized as making the volume safe for doing currency duty.

Let banks, for instance, loan 10 per cent of their 25 per cent reserve, and there will evidently be that amount of credit money added in the shape of deposits, and also that much final money would be liberated to make exchanges, and there is thus more money, as we say. This, perhaps, breeds a distrust on part of those who have deposits in banks, and they begin to take out their dollars and pay up their own debts, in which case that amount of bank money is wiped out as orders good for commodities at value.

Bankers then in turn call upon those who owe them, for they cannot pay deposits without paying out all their reserves, and so they force payment from their debtors.

This must cut down deposits still more, until, finally, banks reduce their deposits and recover their normal per cent of reserve.

While the volume is thus going down, and there is less and less to do business with, the volume of commodity divisions to be exchanged must accommodate themselves to the new conditions, and more quantities will be given with every currency exchange.

FINANCIAL HEALTH AND DISEASE.

We think the subject of this paper, which is the ideal and practical financial relations existing between society, money, and commodites, has been sufficiently elaborated to enable us to arrive at some conclusions.

If this paper proves anything, it is that at a certain relative point in the volume of dollars on one side, and things that dollars represent on the other, there can be a perfectly equitable free exchange that will give parties having currency to exchange for commodites, or commodites to exchange for dollars, no advantage over each other.

Let us call such the condition of perfect health.

We also think the disease has been clearly pointed out, and that it consists in a derangement of the standard number of dollars required to keep values or prices from either a general advance or decline.

One of these is as much a disease as the other.

SPECIFIC DISEASES AND REMEDIES.

Let us now summarize the causes of this disease and if possible suggest remedies.

The First. We name the attempt of society (the government) to issue redeemable money.

REMEDY.—Let the government issue no promises of any kind. Simply certify that certain quantities of valuable commodities are held in its treasury and will be paid out in such and such quantities to the legal tender dollar. If any one did not like or could not use the certificate, they could get the metal or metals or whatever was deposited, and that ended the matter as to society.

Second. We take up the disturbance known as the single metal contraction or expansion of the currency, owing to a too large or small natural production.

REMEDY.—Use more than one metal, for then there is less chance of both being in extra demand at same time the world over, and so one steadies the other.

Third. Is the disease or disturbance we may call commercial ratio or relation of different metals, or commodites, used as money.

REMEDY.—Let the government select and use such assets as can be handled conveniently, and are natural, simple substances, like gold and silver, for the whole product may have to be held.

Let them reserve right to redeem certificates in either metal, by alternate payment at their own option.

This alternate system means that the government decides to keep all its dollars at par as currency by redeeming its certificates, at option

in quantities settled by congress, who should select the metal (the least quantity of which will buy most where the people trade most) with which to keep all their other metals on a commercial par.

Say they decide that every legal tender dollar certificate will entitle the holder to $23\frac{2}{16}$ grains of gold or 700 grains of silver, and they issue such certificates to any one bringing them the metals, it is clear the government is in a very safe position, for when say 700 grains of silver cannot be procured for $23\frac{2}{16}$ grains of gold they can at option pay out the gold, and have silver, and a surplus of same to spare, to buy more gold with.

This condition would, of course, stop the presentation of silver for money purposes, as no one would give the government 700 grains for a dollar certificate, when they could procure a dollar for 699 grains in the open market.

That this might happen is certain for the value of everything is made by use or demand, and the government offer to turn every 700 grains of silver into dollars might raise its commercial value, and prevent any more being put to money use, until it should again become so plenty that 700 grains would be presented to procure government dollar certificates. Should appreciation of silver continue congress could reduce the number of grains they would agree to alternate with gold even until the standard was reached at which it is now coined or owned in almost all countries, viz.: $15\frac{1}{2}$ to 1 or 350 grains silver to $23\frac{2}{16}$ gold.

Thus, worked in connection with commercial values, the government could keep the volume of both metals in full active use, and never be embarrassed by being called on for a metal it might be short of.

The whole product of both metals would be used as final currency and at about their market values, which is all that miners have been getting for the past four years for only a part of their product, leaving the balance in bullion to affect price in open market.

Fourth. And most important is the disease known as undue expansion or contraction of promising currency dollars. Important because ten exchanges are now made by use of credit dollars to one by final payment money, and so the disease is greatly aggravated.

REMEDY.—Let the government control all banks of deposit as well as issue. Compel a uniform percentage of final money to be always on hand in proportion to bank promises. Be satisfied that every note discounted was taken in good faith as representing commodities at current value. Compel all banks accumulating more final currency than required for legal reserve to reduce their average interest rate until total of reserve is again in line. This will tend to keep the currency from contracting, just as having to keep the reserve will prevent its expanding more than say four times the reserve if the limit of same is 25 per cent.

Nothing can stop the expansion of bank promises, but the difficulty of holding final currency for reserves, for there is always a certain pressure for its use by those who can use no other kind, and who have therefore to keep constantly bidding against the banks for it, *e. g.*, giving a little more of whatever they have to exchange. There is a bidding for final currency (when credit is declining) by the banks asking borrowers to pay up, and this pressure, those who must have the cash, are also required to resist by giving more of what

they have to exchange. Thus, whether the volume of currency is expanding or declining, cash users are resisting bank efforts to absorb the only currency the former can use, and no doubt this helps to make the purchasing power of all dollars greater than they would otherwise be.

Fifth, and last. We come to the general disease known as the Rise and Fall of Credit.

REMEDY.—The financial doctor who discovers this remedy will be a blessing to all civilized people, for there is no disturbing element that so quickly and largely affects the volume of currency dollars as this credit expansion and contraction.

A radical remedy would be to declare that after a fixed date no exchanging should be made for any promise, except on risk of forfeiture at option of party making promise, or even more radical still a law forbidding either taking or making promises under penalty.

As no one could borrow on a promise, there would be no such thing as interest or discount, and profit could only be made by getting in each dollar exchange more dollars than were given in prior one, and by investments bringing in profits where income was more than expenses.

If the foregoing remedy is thought to be too severe or worse than the disease, there is one that we think the government could at once put into practice, and that would prevent violent fluctuations in values by giving timely warnings of financial conditions.

Let us call it "The government financial forecast," to be published daily or weekly as are the weather probabilities.

Let the government currency be upon the basis suggested in this paper, and then organize a bureau of experts, whose duty it shall be to keep account of all financial figures and facts connected with prices, credits, banks, currency, and whatever is found to affect values, with a view to issue prediction tables and forecasts.

We are now forewarned of nature's storms which cannot be averted, and how much better, if in this financial case we were not only forewarned, but the storm forestalled, and a true equilibrium kept between all having exchanges to make.

If this balance is kept steady and true between all there can be no reasonable complaint, and individual success would not be objectionable, for all would have equal chances.

CONCLUSION.

There is hardly a man in the United States that has not some commodities he wants exchanged for dollars that will secure him the same values he would get if he exchanged direct for others' commodities.

He may only have capital in shape of three hundred days' work that he puts at a value of $1.00 a day, or it may be capital in the shape of a house or store that he puts at ten thousand dollars. The presumption is that our house owner saved part of whatever he got (say 10 per cent), and finally invested it in a house or store, and that he may still be valuing his services at $10.00 per day, and include same amongst the commodities he has for sale.

Making a distinction between capitalists and laborers is misleading. All men, who have anything for exchange, are capitalists; and all who work with head or hand are laborers, and we may therefore

conclude that there are not one thousand men in the United States who are not both laborers and capitalists.

A man saving part of his capital or spending it all produces quite a different result. By saving he is enabled to have it for spending at a later date, and the commodities it is invested in may be needed by others, and bring in a profit that still further increases his capital.

The man whose capital is his labor at $1.00 per day can save in proportion to what his labor brings, and if he will save 10 per cent he can be proportionately as great a capitalist both as to labor and savings.

That one man is a larger capitalist, or a different kind of laborer from another, no conceivable system will prevent.

All that can be done is to see to it that those freely exchanging whatever they have can do it in such a way that neither can take advantage of the other. This, of course, applies to bodies of men as well as individuals.

Dividing the country into rich and poor is misleading, as there are no such two classes, for we defy any one to state where the line of distinction could be drawn. One may be richer or poorer than another, but it altogether depends upon whom you compare with.

Let us look at conditions as they really exist, and not foster bad feeling by artificial distinctions.

"The greatest thing" in the financial world is to supply a medium that everybody will consider fair when used in valuing and exchanging what capital or commodities they have for those they want.

Fair play, and no favors, should be the watchword of every one included in our social compact. If this paper has made the financial situation existing between all any plainer, showing its defects for the purpose of cure, then its purpose has been accomplished, and something has been done towards a cure of the discontent bred by a sense of the injustice of having a measure of value in constant state of undue flux.

We hope even better cures may be suggested.

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